

**SABINE RIVER AUTHORITY OF TEXAS
AND
SABINE RIVER AUTHORITY,
STATE OF LOUISIANA
TOLEDO BEND - JOINT OPERATION
FINANCIAL REPORT
AUGUST 31, 2011**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **NOV 09 2011**

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**INDEPENDENT AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS**

To the Board of Directors,
Sabine River Authority of Texas, and
The Board of Commissioners,
Sabine River Authority, State of Louisiana

We have audited the accompanying basic financial statements of the Toledo Bend - Joint Operation, a joint operation between the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana, as of and for the years ended August 31, 2011 and 2010. These financial statements are the responsibility of the Joint Operation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Toledo Bend - Joint Operation as of August 31, 2011 and 2010, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2011, on our consideration of the Toledo Bend - Joint Operation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of insurance in force is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of insurance in force has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Broussard Poche, Lewis & Breaux L.L.P.

Lafayette, Louisiana
October 27, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Toledo Bend - Joint Operation (TBJO) annual financial report presents a discussion and analysis of TBJO's financial performance during the fiscal year that ended August 31, 2011. Please read this section in conjunction with TBJO's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

TBJO's net assets were \$67,937,329 at August 31, 2011. Of this amount, \$66,748,020 was invested in capital assets and \$1,189,309 was unrestricted. Net assets increased by \$2,380,915, \$1,041,897, and \$638,151 during the 2011, 2010, and 2009 fiscal years, respectively.

TBJO's capital transfers in were \$5,900,000, \$4,300,000, and \$3,500,000 during the 2011, 2010, and 2009 fiscal years, respectively, and operating expenses were \$4,103,662, \$3,731,364, and \$3,350,990, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial report consists of three parts: *Management's Discussion and Analysis* (this section), the basic financial statements, and the notes to the financial statements.

The basic financial statements present information for TBJO as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the statements of net assets and the statements of revenues, expenses and changes in fund net assets.

The statements of net assets presents the assets and liabilities. The difference between total assets and total liabilities is the net assets and may provide a useful indicator of whether the financial position of TBJO is improving or deteriorating.

The statements of revenues, expenses and changes in fund net assets presents information showing how TBJO's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, transactions are recorded that will not affect cash until future periods.

The financial statements provide information about TBJO's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

TBJO's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of TBJO are included in the statement of net assets.

CONDENSED FINANCIAL INFORMATION

The following tables reflect condensed financial information for TBJO:

TABLE I
CONDENSED STATEMENT OF NET ASSETS

ASSETS	2011	2010	2009
Current assets	\$ 1,734,250	\$ 1,810,675	\$ 1,502,035
Capital assets	<u>66,748,020</u>	<u>64,356,803</u>	<u>63,214,542</u>
	<u>\$68,482,270</u>	<u>\$66,167,478</u>	<u>\$64,716,577</u>
LIABILITIES AND NET ASSETS			
Current liabilities	<u>\$ 544,941</u>	<u>\$ 611,064</u>	<u>\$ 202,060</u>
Net assets:			
Invested in capital assets	\$66,748,020	\$64,356,803	\$63,214,542
Unrestricted	<u>1,189,309</u>	<u>1,199,611</u>	<u>1,299,975</u>
Total net assets	<u>\$67,937,329</u>	<u>\$65,556,414</u>	<u>\$64,514,517</u>
Total liabilities and net assets	<u>\$68,482,270</u>	<u>\$66,167,478</u>	<u>\$64,716,577</u>

TABLE II
CONDENSED STATEMENT OF REVENUE, EXPENSES, AND
CHANGES IN FUND NET ASSETS

	2011	2010	2009
Operating revenues	<u>\$ 576,755</u>	<u>\$ 459,839</u>	<u>\$ 463,050</u>
Operating expenses:			
Salaries and fees	\$ 2,294,792	\$ 2,279,197	\$ 2,071,327
Supplies	123,460	98,061	101,600
Maintenance	651,785	325,323	157,399
Sundry charges	102,000	102,000	107,700
Depreciation	753,681	756,657	759,605
Miscellaneous	<u>177,944</u>	<u>170,126</u>	<u>153,359</u>
Total operating expenses	<u>\$ 4,103,662</u>	<u>\$ 3,731,364</u>	<u>\$ 3,350,990</u>
Operating loss	<u>\$(3,526,907)</u>	<u>\$(3,271,525)</u>	<u>\$(2,887,940)</u>
Non operating revenue (expenses), net	7,822	13,422	26,091
Capital transfers in	<u>5,900,000</u>	<u>4,300,000</u>	<u>3,500,000</u>
Change in net assets	<u>\$ 2,380,915</u>	<u>\$ 1,041,897</u>	<u>\$ 638,151</u>

FINANCIAL ANALYSIS

TBJO's total net assets increased by \$2,380,915, \$1,041,897, and \$638,151 or 3.6%, 1.6%, and 1.0% for the years ended August 31, 2011, 2010, and 2009, respectively. The increases in net assets for the years ended August 31, 2011, 2010, and 2009 are a result of increased capital contributions from the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana. Capital contributions were increased as a result of the FERC relicensing process.

FERC relicensing costs totaled \$3,047,917, \$1,863,771, and \$1,133,547 for the years ending August 31, 2011, 2010, and 2009, respectively.

CAPITAL ASSETS

As of August 31, 2011, TBJO had \$66,748,020 (net of accumulated depreciation) invested in capital assets. During the 2011 fiscal year, TBJO incurred costs of \$3,047,917 in connection with the FERC relicensing process. This amount was capitalized and will be amortized over the life of the license when it is renewed. The following table reflects the TBJO's capital assets net of accumulated depreciation:

TABLE III
CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION

	<u>2011</u>	<u>2010</u>	<u>2009</u>
FERC relicensing costs	\$ 7,030,539	\$ 3,982,622	\$ 2,118,851
Reservoir and waterways	36,001,159	36,001,159	36,001,159
Dam and spillway	8,225,973	8,505,863	8,785,753
Hydroelectric power plant	15,004,844	15,386,009	15,767,174
Buildings, structures, and equipment	<u>485,505</u>	<u>481,150</u>	<u>541,605</u>
Total	<u>\$66,748,020</u>	<u>\$64,356,803</u>	<u>\$63,214,542</u>

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

There are currently no known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

CONTACTING TBJO'S FINANCIAL MANAGEMENT

This financial report is designated to provide our legislatures, state officials, the Louisiana Legislative Auditor's office, patrons, and other interested parties with a general overview of TBJO's finances and to demonstrate TBJO's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Debra Stagner at (409) 746-2192.

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BASIC FINANCIAL STATEMENTS

TOLEDO BEND - JOINT OPERATION

STATEMENTS OF NET ASSETS
August 31, 2011 and 2010

ASSETS	2011	2010
CURRENT ASSETS:		
Cash	\$ 959,476	\$ 1,124,917
Certificate of deposit	532,060	525,398
Due from other governmental entities	176,205	42,562
Accrued interest receivable	859	1,236
Other receivables	19,657	73,885
Prepaid expenses	45,993	42,677
	<u>\$ 1,734,250</u>	<u>\$ 1,810,675</u>
CAPITAL ASSETS:		
Non-depreciable	\$43,031,698	\$39,983,781
Depreciable, net	<u>23,716,322</u>	<u>24,373,022</u>
	<u>\$66,748,020</u>	<u>\$64,356,803</u>
Total assets	<u>\$68,482,270</u>	<u>\$66,167,478</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	<u>\$ 544,941</u>	<u>\$ 611,064</u>
Total liabilities	<u>\$ 544,941</u>	<u>\$ 611,064</u>
NET ASSETS		
Invested in capital assets	\$66,748,020	\$64,356,803
Unrestricted	<u>1,189,309</u>	<u>1,199,611</u>
Total net assets	<u>\$67,937,329</u>	<u>\$65,556,414</u>
Total liabilities and net assets	<u>\$68,482,270</u>	<u>\$66,167,478</u>

See Notes to Financial Statements.

TOLEDO BEND - JOINT OPERATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Years Ended August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Miscellaneous	\$ 576,755	\$ 459,839
OPERATING EXPENSES		
Salaries and fees	\$ 2,294,792	\$ 2,279,197
Supplies	123,460	98,061
Maintenance:		
Structures	538,098	249,825
Equipment	113,687	75,498
Sundry charges	102,000	102,000
Miscellaneous	177,944	170,126
Depreciation	753,681	756,657
Total operating expenses	\$ 4,103,662	\$ 3,731,364
Operating loss	\$ (3,526,907)	\$ (3,271,525)
Nonoperating revenue (expenses):		
Interest income	\$ 9,654	\$ 12,709
Gain (loss) on disposal of fixed assets	(1,832)	713
Total nonoperating revenue (expenses)	\$ 7,822	\$ 13,422
Loss before contributions and transfers	\$ (3,519,085)	\$ (3,258,103)
Capital transfers in	5,900,000	4,300,000
Change in net assets	\$ 2,380,915	\$ 1,041,897
Net assets, beginning	65,556,414	64,514,517
Net assets, ending	\$67,937,329	\$65,556,414

See Notes to Financial Statements.

TOLEDO BEND - JOINT OPERATION

STATEMENTS OF CASH FLOWS
Years Ended August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Paid to suppliers	\$ (3,515,495)	\$ (2,553,814)
Other receipts	<u>497,340</u>	<u>409,642</u>
Net cash used in operating activities	<u>\$ (3,018,155)</u>	<u>\$ (2,144,172)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital transfers in	\$ 5,900,000	\$ 4,300,000
Purchases of fixed assets	<u>(3,050,654)</u>	<u>(1,898,206)</u>
Net cash provided by capital and related financing activities	<u>\$ 2,849,346</u>	<u>\$ 2,401,794</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificate of deposit	\$ (6,662)	\$ (6,756)
Interest receipts	<u>10,030</u>	<u>12,575</u>
Net cash provided by investing activities	<u>\$ 3,368</u>	<u>\$ 5,819</u>
Net increase in cash	\$ (165,441)	\$ 263,441
Balance, at beginning of year	<u>1,124,917</u>	<u>861,476</u>
Balance, at ending of year	<u>\$ 959,476</u>	<u>\$ 1,124,917</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (3,526,907)	\$ (3,271,525)
Adjustments to reconcile operating loss to net cash used in operating activities -		
Depreciation expense	753,681	756,657
Changes in assets and liabilities:		
Due from other governmental entities	(133,643)	23,688
Other receivables	54,228	(73,885)
Prepaid expenses	(3,316)	11,889
Accounts payable	<u>(162,198)</u>	<u>409,004</u>
Net cash used in operating activities	<u>\$ (3,018,155)</u>	<u>\$ (2,144,172)</u>

See Notes to Financial Statements.

TOLEDO BEND - JOINT OPERATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The financial statements of the Toledo Bend - Joint Operation have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Toledo Bend - Joint Operations applies all relevant GASB pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The more significant of the Operation's accounting policies are described below.

Reporting entity:

The Toledo Bend - Joint Operation is a joint operation between the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana, and was established by joint resolution of the Texas and Louisiana Sabine River Authority. The operation is administered by an Operating Board composed of three members appointed by the Texas Authority and three members appointed by the Louisiana Authority.

Basis of presentation:

The financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange or exchange-like transactions are recognized when the exchange occurs (regardless of when cash is received or disbursed). Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions."

Operating income reported within the financial statements includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues include water royalties as well as other miscellaneous charges. Principal operating expenses are the costs associated with the operations of the fund and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

Proprietary funds are accounted for using a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. The proprietary fund uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred.

NOTES TO FINANCIAL STATEMENTS

Cash and cash equivalents:

Cash includes amounts in demand and savings deposits and cash on hand. For purposes of the statements of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. The Operation had no cash equivalents at August 31, 2011 and 2010.

Capital assets:

Capital assets, which include the dam, spillway, hydroelectric power plant, reservoir, waterways, buildings, structures and equipment are reported at historical cost. All capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Dam and spillway	67
Hydroelectric power plant	67
Buildings, structures and equipment	5 - 50

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Impairments:

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The Operation is required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. The Operation recorded no impairment losses during the year ended August 31, 2011.

Prepaid expenses:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

NOTES TO FINANCIAL STATEMENTS

Note 2. Capital Assets

Capital assets activity for the years ended August 31, 2011 and 2010 was as follows:

	Balance 09/01/10	Increases	Decreases	Balance 08/31/11
Capital assets not being depreciated:				
FERC relicensing costs	\$ 3,982,622	\$3,047,917	\$ -	\$7,030,539
Reservoir and waterways	<u>36,001,159</u>	<u>-</u>	<u>-</u>	<u>36,001,159</u>
	<u>\$39,983,781</u>	<u>\$3,047,917</u>	<u>\$ -0-</u>	<u>\$43,031,698</u>
Capital assets being depreciated:				
Dam and spillway	\$18,659,332	\$ -	\$ -	\$18,659,332
Hydroelectric power plant	25,410,994	-	-	25,410,994
Buildings, structures and equipment	<u>1,878,089</u>	<u>98,812</u>	<u>60,539</u>	<u>1,916,362</u>
	<u>\$45,948,415</u>	<u>\$ 98,812</u>	<u>\$ 60,539</u>	<u>\$45,986,688</u>
Less accumulated depreciation for:				
Dam and spillway	\$10,153,469	\$ 279,890	\$ -	\$10,433,359
Hydroelectric power plant	10,024,985	381,165	-	10,406,150
Buildings, structures and equipment	<u>1,396,939</u>	<u>92,626</u>	<u>58,708</u>	<u>1,430,857</u>
	<u>\$21,575,393</u>	<u>\$ 753,681</u>	<u>\$ 58,708</u>	<u>\$22,270,366</u>
Capital assets being depreciated, net	<u>\$24,373,022</u>	<u>\$ (654,869)</u>	<u>\$ (1,831)</u>	<u>\$23,716,322</u>
Total capital assets, net	<u>\$64,356,803</u>	<u>\$2,393,048</u>	<u>\$ (1,831)</u>	<u>\$66,748,020</u>

NOTES TO FINANCIAL STATEMENTS

	<u>Balance</u> <u>09/01/09</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>08/31/10</u>
Capital assets not being depreciated:				
FERC relicensing costs	\$ 2,118,851	\$1,863,771	\$ -	\$ 3,982,622
Reservoir and waterways	<u>36,001,159</u>	<u>-</u>	<u>-</u>	<u>36,001,159</u>
	<u>\$38,120,010</u>	<u>\$1,863,771</u>	<u>\$ -0-</u>	<u>\$39,983,781</u>
Capital assets being depreciated:				
Dam and spillway	\$18,659,332	\$ -	\$ -	\$18,659,332
Hydroelectric power plant	25,410,994	-	-	25,410,994
Buildings, structures and equipment	<u>1,905,328</u>	<u>43,821</u>	<u>71,060</u>	<u>1,878,089</u>
	<u>\$45,975,654</u>	<u>\$ 43,821</u>	<u>\$ 71,060</u>	<u>\$45,948,415</u>
Less accumulated depreciation for:				
Dam and spillway	\$ 9,873,579	\$ 279,890	\$ -	\$10,153,469
Hydroelectric power plant	9,643,820	381,165	-	10,024,985
Buildings, structures and equipment	<u>1,363,723</u>	<u>95,602</u>	<u>62,386</u>	<u>1,396,939</u>
	<u>\$20,881,122</u>	<u>\$ 756,657</u>	<u>\$ 62,386</u>	<u>\$21,575,393</u>
Capital assets being depreciated, net	<u>\$25,094,532</u>	<u>\$ (712,836)</u>	<u>\$ (8,674)</u>	<u>\$24,373,022</u>
Total capital assets, net	<u>\$63,214,542</u>	<u>\$1,150,935</u>	<u>\$ (8,674)</u>	<u>\$64,356,803</u>

Depreciation expense attributable to water conservation and reclamation totaled \$753,681 and \$756,657 for the years ended August 31, 2011 and 2010, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 3. Contingent Liabilities

Public Law 98-571 directed the Federal Energy Regulatory Commission (FERC) to waive annual administration charges for the use of United States lands during the remaining term of the license to operate the Joint Project. The license expires 50 years from October 1, 1963. The waiver is contingent upon FERC determining that the power from the project is sold to the public without profit. All exemptions applied for through August 31, 2011 have been approved.

Note 4. Service Items

Service items included in the categories salaries and fees represent the expenses incurred by Sabine River Authority of Texas and Sabine River Authority, State of Louisiana, individually, for the Joint Operation Water Supply and Hydroelectric System Fund. The associated expense was \$1,571,956 and \$1,567,772 for the years ended August 31, 2011 and 2010, respectively.

Note 5. Deposits

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Operation's deposits may not be returned to it. The Operation's policy to ensure there is no exposure to this risk is to require each financial institution to pledge their own securities to cover any amount in excess of Federal Depository Insurance Coverage. These securities must be held in the Operation's name. Accordingly, the Operation had no custodial credit risk related to its deposits at August 31, 2011 and 2010.

Note 6. Risk Management

Toledo Bend - Joint Operations is subject to risk of loss resulting from claims and judgments which may arise in the normal course of business. Significant losses resulting from such claims are covered by commercial insurance.

Note 7. Amounts Due to Sabine River Authority of Texas and Sabine River Authority, State of Louisiana

Included in accounts payable at August 31, 2011 and 2010 are amounts due to the Sabine River Authority of Texas and the Sabine River Authority of Louisiana as follows:

	<u>2011</u>	<u>2010</u>
Sabine River Authority of Texas	\$ 58,863	\$ 131,290
Sabine River Authority of Louisiana	<u>-</u>	<u>65,324</u>
	<u>\$ 58,863</u>	<u>\$ 196,614</u>

TOLEDO BEND - JOINT OPERATION

SCHEDULE OF INSURANCE IN FORCE

FOR THE FISCAL YEAR ENDING AUGUST 31, 2011

(Policy Period June 30, 2011 Through June 30, 2012)

NAME OF COMPANY	POLICY NO.	DESCRIPTION	LIMITS
Fidelity Insurance Co. (Chubb Group)	35830675	Commercial General Liability (includes terrorism)	\$1,000,000 Each Occurrence \$2,000,000 General Aggregate
AEGIS Houston Insurance Services, Inc.	J0330A1A11	Excess Liability (includes terrorism)	\$35,000,000 Each Occurrence \$70,000,000 General Aggregate
CHARTIS - 25% Liberty Mutual - 50% Star Tech ACE - 25%	61628237 3LA106680010 EUTN05105493	Property, Boiler and Machinery, Business Interruption, Flood and Earthquake (includes terrorism)	\$150,000,000 Per Occurrence Contractor's Equipment, Marine Equipment, and Communications Equipment \$3,000,000 Business Interruption
Federal Insurance Company (Chubb Group)	(11)73528604	Auto Liability/Physical Damage	\$1,000,000 Bodily Injury/ Property Damage
Federal Insurance Company (Chubb Group)	(12)71710168	Worker's Compensation -	\$1,000,000 Each Accident \$1,000,000 Policy Limit \$1,000,000 Each Employee
Zurich American	USC942198603	Underground Storage Tank	\$1,000,000 Each Claim \$2,000,000 All Claims



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors,
Sabine River Authority of Texas, and
The Board of Commissioners,
Sabine River Authority, State of Louisiana

We have audited the basic financial statements of the Toledo Bend - Joint Operation, a joint operation between the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana as of and for the year ended August 31, 2011, and have issued our report thereon dated October 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Toledo Bend - Joint Operation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Toledo Bend - Joint Operation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Toledo Bend - Joint Operation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Toledo Bend - Joint Operation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management, the Boards of Directors and Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Bloussard Roche, Lewis & Poreaux L.L.P.

Lafayette, Louisiana
October 27, 2011

TOLEDO BEND - JOINT OPERATION

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended August 31, 2011

We have audited the basic financial statements of Toledo Bend - Joint Operation, a joint operation between the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana, as of and for the year ended August 31, 2011, and have issued our report thereon dated October 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of August 31, 2011 resulted in an unqualified opinion.

Section I - Summary of Auditors' Reports

A. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weakness(es) Identified ☐ Yes ☒ No

Control Deficiencies Identified That
Are Not Considered to be Material
Weakness(es)

☐ Yes ☒ None Reported

Compliance

Noncompliance Material to Financial
Statements

☐ Yes ☒ No

Section II - Financial Statement Findings

No matters are reported.

TOLEDO BEND - JOINT OPERATION

SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended August 31, 2011

Section I. Internal Control and Compliance Material to the Financial Statements

None reported.

Section II. Internal Control and Compliance Material to Federal Awards

Not applicable.

Section III. Management Letter

There were no matters reported in a separate management letter for the year ended August 31, 2010.